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Assessing Labor Market Performance in the West Bank during the War on Gaza

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Foreword

This research paper explores the changes that have occurred in the West Bank labor market due to the Israeli measures and restrictions imposed since the outbreak of the 2023 war, which have caused significant damage to economic performance and employment conditions. These measures have taken the form of recurrent military incursions, stringent mobility restrictions enforced through hundreds of checkpoints and gates that have fragmented the West Bank governorates, as well as the prohibition of Palestinian workers from accessing their workplaces in the Israeli labor market. Consequently, local consumption declined, and competition for available jobs intensified following the dismissal of thousands of workers. These developments were accompanied by heightened fiscal constraints resulting from deductions from clearance revenues, which weakened the Palestinian government's ability to meet its financial obligations toward public employees and private-sector suppliers.

Against this backdrop, the paper seeks to assess the extent to which the general labor market indicators have been affected by the shock of the war. It begins by examining trends in employment and unemployment rates, as well as changes in wages and working hours, between the fourth quarter of 2023 and the second quarter of 2025. The paper also tracks the labor market trajectories of individuals who lost their jobs to evaluate the capacity of the local economy to absorb and reintegrate them into employment.

This paper is part of a broader research project that seeks to assess the social and economic repercussions of the war on the Gaza Strip and the West Bank. It aims to explore possible pathways for recovery and put forward potential development policies. The study is grounded in a rigorous assessment of the consequences of economic destruction and an evaluation of labor market performance and key economic indicators through the second quarter of 2025. As such, this study is one in a series of analytical studies designed to provide a comprehensive framework for assessing the social and economic effects of the war on the West Bank and the Gaza Strip, identify viable pathways to recovery, and inform future development policies.

On this occasion, I extend my sincere gratitude to the Arab Fund for Economic and Social Development for financing this vital project and for its continued support of research and policies aimed at enhancing the resilience of the Palestinian economy and building the foundations of development under exceptional circumstances. I also extend my appreciation to all those who contributed to the preparation of this paper, especially the main researcher, Mr. Islam Rabie, and the Supervising Researcher, Dr. Bilal Falah, in recognition of their efforts in completing this study and their contribution to enriching the discussion on post-war economics and the prospects for economic recovery in Palestine.

Feras Milhem
Director General

Summary

This study is part of a broader research project that seeks to assess the social and economic repercussions of the war on the Gaza Strip and the West Bank. It aims to explore possible pathways for recovery and put forward potential development policies. More specifically, the study focuses on the labor market in the West Bank. The study examines the repercussions of the economic devastation caused by the 2023 war on the local labor market. It analyzes the extent to which key labor market indicators have been affected by the shock of the war, including employment, unemployment, changes in working hours, and wages.

The study comprises two main chapters. The first examines the restrictive policies and practices imposed by Israel on the West Bank since the onset of the war, which have directly and indirectly affected economic performance and the labor market in the West Bank. Among the most prominent of these measures are the repeated military incursions carried out by the Israeli occupation, particularly in the northern West Bank, coupled with the imposition of severe restrictions on the movement of people and goods. These restrictions have been enforced through the establishment of hundreds of checkpoints, roadblocks, and gates, effectively fragmenting and isolating Palestinian communities from one another.

In addition, the Israeli government has largely banned access to the Israeli labor market, with significant repercussions for the Palestinian labor market through two main channels: First, there has been a decline in the compensation earned by workers employed in Israel, negatively impacting domestic demand and consumption levels. Second, many laid-off workers have been compelled to compete with West Bank workers for the limited jobs available locally. Moreover, these measures have been compounded by intensified financial pressure on the PA, as Israel has imposed arbitrary and unlawful deductions from clearance revenues. This has led to a noticeable decline in these revenues and weakened the government's capacity to meet its obligations toward public employees, suppliers, and vulnerable households.

In the second chapter, the author provides a comprehensive and detailed analysis of the changes in employment, unemployment rates, and labor force participation in the West Bank after seven quarters since the onset of the latest war on the Gaza Strip. The most significant of these changes over this period can be summarized as follows:

- **Employment and Unemployment:** Quarterly data show the immediate impact of the war shock on unemployment rates in the West Bank. After just one quarter of the war, unemployment reached an unprecedented level, rising to 33.2% in the fourth quarter of 2023, up from 12.9% in the third quarter of the same year. This sharp increase was driven by the loss of more than 203,000 jobs, the majority of which (73%) were held by workers employed in the Israeli labor market. After two quarters of the war, the continued decline in domestic employment led to a reduction in the total number of workers of approximately 42,200 in the West Bank. Amid persistent restrictions on access to employment in Israel, coupled with escalating military operations and mounting political pressures, unemployment rates remained exceptionally high, reaching 35.2% in the first quarter of 2024.

  Since the second quarter of 2024, a phase of partial and incomplete recovery has emerged, with the labor market gradually beginning to absorb the shock. Unemployment rates declined steadily, reaching 28.8% in the final quarter of 2024. This improvement was driven by a partial recovery in domestic employment, along with a modest increase in the number of workers employed in Israel and Israeli settlements, a considerable proportion of whom were working without formal permits.

  In 2025, unemployment rates fluctuated between increases and decreases. In the first quarter of 2025, the rate rose by 1.4 percentage points compared to the previous quarter, reaching 30.4%, before declining by 1.6 percentage points in the second quarter of the same year to 28.6%. Despite these modest positive signals, the labor market continues to experience a state of structural deterioration. The unemployment rate gap relative to pre-war levels remains above 15.7 percentage points, reflecting the limited absorptive capacity of the domestic economy. This underscores the fundamentally structural nature of unemployment, which remains difficult to alleviate under the persistence of current security and political constraints.

- **Labor Force Participation Rate:** In contrast to the sharp changes observed in unemployment rates, the labor force participation rate did not experience significant fluctuations. Overall, participation remained relatively stable, ranging between 45% and 47%. This stability can be largely attributed to the fact that most individuals who lost their jobs, particularly those previously employed in Israel and the settlements, transitioned into active job seekers rather than withdrawing from the labor market, especially during the early stages of the war. This indicates that the unprecedented rise in unemployment was primarily driven by a shortage of job opportunities rather than a decline in willingness to work. However, as the war and its severe impacts persisted, the participation rate experienced a slight decline.

- **Unemployment by Gender and Educational Attainment:** Unemployment rates disaggregated by gender reveal that the impact of the war was disproportionately concentrated among men, while its effect on women was both delayed and less pronounced throughout most of the study period. After 21 months of the war, the unemployment rate among women was approximately 4.9 percentage points higher than in the third quarter of 2023, whereas the increase among men was much more substantial, reaching 18.1 percentage points over the same period.

  The study offers several explanations for the relatively limited impact of the war on women's unemployment compared to men. Chief among these is that the primary employer of women is the public sector, which did not undergo layoffs. In the private sector, women's employment is largely concentrated in service activities such as education and health sectors characterized by greater flexibility and resilience in the face of economic shocks compared to productive sectors, which experienced significant deterioration in the early stages of the war.

  Quarterly data on educational attainment reveal a widening gap in unemployment rates between more educated and less educated individuals following the war. This can be attributed to the fact that economic activities that traditionally employed less-educated men, such as productive sectors, particularly manufacturing and construction, were more severely affected by the war than those employing more-educated men, which are predominantly concentrated in the service sector. Moreover, a substantial proportion of those who lost their jobs at the onset of the war and were unable to secure adequate employment opportunities during the war consisted of men who had been working in Israel and the settlements, the majority of whom had relatively low levels of educational attainment.

- **Private Sector Wage Employees:** One quarter after the outbreak of the war, the economic activities most adversely affected by its negative repercussions, namely manufacturing and construction, experienced the greatest job losses. These sectors, along with trade and service activities, witnessed the most significant declines in the number of wage employees. Overall, employment levels in productive sectors, particularly in construction, were the most severely impacted compared to other economic activities, as they continue to remain markedly below their pre-war levels throughout the war.

- **Number of Working Hours in the Private Sector by Economic Activity:** The average weekly working hours in the private sector declined by 3.8 hours in the fourth quarter of 2023, one quarter after the war, settling at 41.9 hours. Despite minor fluctuations in subsequent quarters, this average remained below pre-war levels, recording 42.0 hours in the second quarter of 2025 compared to 45.7 hours in the third quarter of 2023. Disparities in average working hours became evident across economic activities, particularly between the productive and service sectors. Productive activities were more adversely affected by the war shock, experiencing a sharp decline in working hours during the first three quarters following its onset, relative to service activities. The latter, however, also began to witness a noticeable reduction in average working hours as the war persisted and restrictions and military operations in the West Bank intensified.

- **Average Daily Wages of Private Sector Employees:**
  The average daily wage declined immediately following the outbreak of the war. Quarterly data indicate a decrease of 12.1 shekels in the fourth quarter of 2023 compared to the previous quarter, bringing the average

to approximately 121.1 shekels. Over the subsequent three quarters, the daily wage gradually increased, reaching 128.3 shekels by the end of the third quarter of 2024. Thereafter, the average daily wage exhibited fluctuations, ultimately reaching 125.9 shekels by the end of the second quarter of 2025. Average daily wages varied by gender, with males showing greater volatility than females. In terms of educational attainment, wage fluctuations were more pronounced among the educated group compared to the less-educated group. Accordingly, the impact of the war on wage levels appears less pronounced when compared to other labor market indicators. This may be partly explained by the fact that the Labor Force Survey questionnaire does not specify whether the reported wage reflects the contractual salary agreed upon between the employee and employer or the actual wage received after the start of the war, which may be lower than before. Studies suggest that many employers were compelled to temporarily reduce wages during the war period in order to cope with economic shocks.

The study concludes that the slowdown in employment levels in the local labor market during the war, alongside the sustained rise in unemployment rates, was primarily driven by a shortage of available jobs rather than by individual inactivity or a decline in job-search efforts. This finding, in turn, highlights the limited capacity of the local labor market to adapt to the war shock and its inability to absorb workers displaced from the Israeli labor market.

An analytical reading of the economic landscape further suggests that the current unemployment crisis is not merely a transient phenomenon, but rather a reflection of a deeply rooted structural deformation stemming from undermining the local economy's growth potential. Over decades, the occupation, through its total control over resources, has disrupted development trajectories and transformed the Palestinian economy into one that is structurally dependent on the Israeli economy. Concurrently, Israeli policies have produced a complex living reality that has pushed a considerable segment of the population into conditions of deprivation, driven by the pronounced disparity between income levels and the cost of living.